Vehicle Service Contracts

Extended Warranties & Other Repair Agreements

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Introduction

Many people buy a Vehicle Service Contract ("VSC") or similar agreement to cover the cost of future repairs. This guide provides information on buying and using a VSC or other type of "repair agreement."

Types of Repair Agreements

When you buy a VSC or other repair agreement, a company becomes legally obligated to pay for covered repairs to your vehicle. (The vehicle could be a car, Motorcycle, ATV or boat.) The company that has this obligation is called the "obligor." There are different kinds of obligors, and some obligors are better in certain ways than others. If you are thinking of buying, or have already bought a repair agreement, it is essential to know who the obligor is, what laws the obligor must follow, and what your rights are. The laws and your rights depend on the type of obligor.

Repair agreements are referred to by different names: auto service contract, vehicle service contract, extended service contract, extended warranty, vehicle service agreement, mechanical breakdown insurance, and others. Regardless of what a repair agreement is called, there are only three main types of repair agreement you can buy. Each type has a different kind of obligor. They are:

- VSCs in which the obligor is a special type of company called a "vehicle service contract provider." (For the rest of this Guide, we will refer to vehicle service contract providers as VSCPs.)
- VSCs in which the obligor is a dealer who sells a car, motorcycle, ATV or boat. We call these "dealer-obligor contracts." When we refer in this Guide to "car dealer," understand that the dealer may also be a motorcycle, ATV or boat dealer.
- Mechanical Breakdown Insurance. For the rest of this Guide we will refer to mechanical breakdown insurance as MBI.)

Consumer Alert

The California Department of Insurance receives many complaints from people who bought repair agreements from companies that operate illegally.

They often cold call consumers or send unsolicited mail or email with misleading statements that the person's existing warranty has expired or is about to expire, and employ a sense of urgency to lure consumers to immediately purchase or "renew" the breakdown coverage. Often the solicitation will include information identifying the vehicle specifically, such as the year, make and model, or use a manufacturer's logo, giving a false impression of authenticity.

Many consumers find out too late after months have passed or if they try to get a claim paid only to be denied or given the run-around. Please do not become a victim of these unlicensed companies and buy your contract in person through a vehicle dealer licensed by the California Department of Motor Vehicles.

Never buy a Vehicle Service Contract over the phone, mail, or through the Internet.

Vehicle Service Contract Provider (VSCP) VSCs

VSCPs are the obligors for most VSCs sold in California. A VSCP is a company that holds a special "VSCP license" from the California Department of Insurance to sell VSCs in California. (For the rest of this Guide, we will refer to the California Department of Insurance as CDI.) The VSCP is the obligor - the company that is legally required to pay the cost to repair your vehicle if it has a covered breakdown.

A VSCP must meet many requirements in order to be granted a VSCP license by the CDI. The most important requirement is that a VSCP's promise to pay for repairs must be guaranteed by a "backup" insurance company. (However, there is an exception to this requirement, which we explain later.) The backup insurance company must be authorized by the CDI to provide the guaranty. If a VSCP goes out of business, or simply decides not to honor a claim, a consumer can have the backup insurance company review the claim. If the claim should be paid, based on the nature of the breakdown and the language of the VSC, then the backup insurance company must pay for the repair if the VSCP does not. The name and address of the backup insurance company must be clearly printed on the VSC.

The only VSCPs that do not need to have backup insurance are VSCPs that have at least $100,000,000 (one hundred million dollars) in "net assets," or are owned by a company that has $100,000,000 in net assets and agrees to guarantee the obligations of the VSCP.

If you cannot find the name and address of the backup insurance company on a VSC, and a dealer selling you the VSC cannot show you the backup insurance company's name and address on the VSC, you should check with the CDI to make sure the VSC is legal before you buy it.

Only a car or watercraft dealer with a dealer's license from the California DMV may legally sell you a VSC issued by a VSCP. Some VSCPs ignore this law and sell VSCs directly to consumers over the phone or Internet, rather than through car dealers. Companies that sell VSCs in California over the phone or Internet are committing a felony.

You should never buy a VSC over the phone or Internet.

Some VSCPs are actually owned by car manufacturers. Many VSCPs are owned by a company that also owns the VSCP's backup insurance company.

Dealer-Obligor VSCs

Some car dealers sell VSCs in which the dealer, rather than a VSCP, is the obligor. These "dealer-obligor" VSCs are nearly identical to VSCs issued by VSCPs. The main difference is that when you buy a dealer-obligor VSC from a dealer, the obligor is the dealer, rather than a VSCP. As with a VSC issued by a VSCP, a dealer-obligor VSC must show the name and address of a backup insurance company authorized by the CDI. The backup insurance company must honor valid claims for covered repairs if the dealer fails to do so.

Another important difference between a VSC issued by a VSCP and a VSC issued by a dealer-obligor is that dealer-obligor VSCs will include the name, address and phone number of an "administrator." An administrator is a special company that will handle claims, process cancellation refund requests, and answer questions about the VSC on behalf of the dealer-obligor. Some VSCPs also use an administrator except they cannot handle claims.

In order for a company to act as an administrator on a dealer-obligor contract it must be licensed with the CDI as a property & casualty broker-agent. You can check to see whether a company is licensed with the CDI by going to CDI's "Check a License" page here: License Status Inquiry (ca.gov), where you can search by individual or company name or license number.

Administrators

Some VSCPs also use administrators. On those contracts—in which a third-party is the obligor—administrators may only collect, maintain or disburse funds to compensate any party for claims or repairs pursuant to a VSC.

Only administrators for dealer-obligors (a first-party seller that is also the obligor) who are also licensed as property-casualty broker-agents may adjust claims or make claims decisions.

The scope of an administrator's role for first-party and third-party obligors is limited by law. They are not allowed to perform any of the coverages in the VSC.

While we refer to the "claim administrator," or simply "administrator" throughout this booklet, we mean only the dealer-obligor's licensed administrator when discussing claims.

Mechanical Breakdown Insurance (MBI)

When you buy a VSC you may think you are buying an insurance policy. This is because VSCs look like insurance policies. However, VSCs and insurance policies are actually different. An insurance policy is a contract between you and an insurance company. The insurance company is the obligor. If you have a claim, you deal directly with the insurance company (or a claim adjuster hired by the insurance company). A VSC, however, is between you and a VSCP or dealer. VSCPs are not, technically, insurance companies. Many laws apply to MBI policies that do not apply to VSCs. For example, the price of MBI policies is regulated by the CDI; the price of a VSC is not regulated, which means the seller (dealers) can charge whatever they want. The price of a VSC can vary between sellers (dealers) so it best to shop around. Consumers may get the most for their money with an MBI policy, especially one purchased directly from the insurance company or a licensed insurance agent. The price of MBI policies is regulated by the CDI to make sure the price is not excessive and directly related to the risk insured.

MBI policies are sold by some banks, credit unions and insurance agents, and directly by insurance companies. One way to buy MBI is over the Internet. Unlike with VSCs, it is legal to sell MBI over the Internet. If you want to obtain MBI over the Internet, it is very important to do the following:

- Confirm the insurance company providing the MBI is licensed by the CDI.
- If you buy MBI from the website of someone other than the insurance company itself, i.e. an insurance agent, make sure the agent is also licensed by the CDI. You can look up an agent's license by going to the CDI "Check a License" page here: License Status Inquiry (ca.gov)
- Confirm that an MBI insurer or agent is licensed at the "Company and Agent/Broker Information" page of CDI's website, at www.Insurance.ca.gov or contact CDI's Consumer Hotline by phone at (800) 927-4357.

Never buy MBI unless you confirm with the CDI that both the insurance company and any agent offering the MBI are properly licensed in California!

Important Terms

All repair agreements contain many provisions. The most important provisions involve:

- The Obligor
- The Price
- The Duration
- What Is Covered
- What Is Not Covered
- What You Need to Do If There Is a Claim
- The Backup Insurance Company

The Obligor — When you pay several thousand dollars for a car you usually get to drive away in the car. But when you pay hundreds or thousands of dollars for a VSC to protect against the cost of car repairs, you only get a piece of paper - a contract that is legally binding between you and the obligor.

As discussed above in the section "Types of Repair Agreements," there are three types of obligors: VSCPs, dealers, and insurance companies. Over the past 40 years, dozens of VSC companies and car dealers have gone out of business. In many cases, car owners who purchased repair agreements from one of these companies that went out of business were stuck with unpaid repair claims. Their repair agreements became worthless pieces of paper.

If you buy a VSC, it is important that you only buy it from a car dealer, and that the VSC contains the name and address of the CDI-authorized backup insurance company. Licensed VSCPs and insurance companies that sell MBI policies must follow dozens of rules to reduce the chance of bankruptcy, pay valid claims promptly, and otherwise treat people fairly. Unlicensed companies that sell repair agreements by phone, mail or the internet often do not pay valid claims and are committing a felony. See "Consumer Alert" above.

Remember: Never buy a VSC over the phone or Internet.

The Price — The price of a repair agreement depends mainly on the type of car, how many miles are on the car's odometer when you buy the agreement, the kinds of repairs that the contract covers or does not cover, and the number of years or miles the agreement covers before it expires.

Car dealers are allowed by law to make a profit on the sale of a VSC. They may charge you as much as you are willing to pay (and as much as the company financing your vehicle is willing to finance). By contrast, the CDI limits the price of MBI to what is considered fair and reasonable. MBI may only be sold by CDI-licensed insurance companies and CDI- licensed insurance agents. Agents who sell MBI may receive a commission. Unlike VSCs, MBI legally may be bought and sold on the Internet, but only by an insurance company or agent licensed by the CDI.

You can negotiate the price of a VSC with a dealer, just as you can negotiate the price of a car. However, you cannot negotiate the price of MBI. One way to effectively negotiate the price of a VSC is to also shop for MBI (only from a CDI-licensed insurance company) before you go to the dealer to buy your car. However, if you compare MBI with a VSC, be careful to compare coverages and exclusions, and not simply the price.

The Duration — All repair agreements expire after a certain length of time or number of miles. The duration typically ranges from one year/ twelve thousand miles to ten years/ one-hundred thousand miles.

What is Covered — Different repair agreements provide different coverages. For example, so-called "power train coverage" might only cover the major components of the vehicle, such as the engine, transmission and drivetrain. A more expensive agreement with broader coverage will cover the engine, transmission, drivetrain and other major parts, such as the suspension, brakes, air conditioner and steering. The broadest level of coverage includes every mechanical part except the parts listed on the contract as "excluded." This type of contract is sometimes called an "exclusionary" contract.

Some people only want to have coverage for the most expensive repairs, like repairs to the engine or transmission. They are able and willing to pay for less expensive repairs using their savings, or prefer to buy a less expensive repair agreement even if it means less coverage. Other people want their repair agreement to cover more repairs, including less expensive repairs (for example, water pumps or sensors), even though a "broad" repair agreement covering more repairs will cost more, and a covered breakdown may never occur.

It is common for VSCs and MBI policies to offer coverage for towing and rental car costs that you incur while your vehicle is being repaired. Some agreements also provide coverage for lost or damaged key fobs, windshield damage, paintless dent repair (PDR), or damage to tires and wheels from road hazards.

When considering the purchase of a VSC or MBI policy, you need to read the whole agreement to learn which parts are covered. As noted above, the broadest coverage is a so-called "exclusionary" contract, in which all parts and services are covered except the parts and services listed in the "Exclusions" section of the VSC. With contracts that provide coverage that is less broad, a part or service must be specifically listed in the "Covered Parts" section of the contract to be covered.

Regardless of whether a repair agreement is of the "exclusionary" type, or the "specified parts" type, a breakdown to a part will not be covered if a provision in the contract excludes coverage based on the nature of the breakdown (for example, if you contributed to the breakdown by failing to properly maintain the vehicle).

What is Not Covered — Many consumers mistakenly believe that a vehicle repair agreement will cover anything and everything that might break. This is never true! All repair agreements have a section called "what is not covered" or "exclusions." Before you buy a repair agreement, read this section slowly and carefully! You must disregard any coverage that is verbally promised by a sales person but is not contained in the written repair agreement.

You may find that parts listed as covered may actually not be covered if a breakdown occurs in certain ways. For example, repair agreements often won't cover a breakdown caused by or involving:

- Failure to service the car as recommended by the manufacturer
- Overheating
- Insufficient, improper or contaminated coolants, lubricants or other fluids
- Alterations to the vehicle
- Towing excessive weight
- Towing without a manufacturer-installed or a manufacturer - authorized and dealer - installed tow package
- Damage to a non-covered part caused by the failure of a covered part
- Damage to a covered part caused by failure of a non-covered part
- Damage that existed prior to the effective date of the
- contract (the "pre-existing condition exclusion")
- Negligence or abuse

An example of an exclusion from coverage to a part that is listed in the VSC as a covered part could look like this: The VSC offers coverage for engine damage, but excludes coverage for hoses. If an engine is damaged due to a sudden loss of coolant through a cracked hose, the VSC may not cover the engine damage. The VSCP or claim administrator will deny the claim because a contributing cause of the damage (a cracked hose in this case) is not a covered item or is specifically excluded.

Never continue to drive a car once a dashboard warning light comes on that indicates a serious problem requiring you to stop driving immediately. Continuing to drive a car with such a warning light on is an example of what is called "continued operations." Continued operations will almost always result in a repair claim being denied based on several exclusions, e.g. driving your car without proper fluid; negligence or abuse; and/or overheating.

Repair agreements may not or will not cover:

- Seals and gaskets (although coverage for these
- parts may be available as an optional benefit).
- Adjustments, alignments, machining of brake rotors and drums, shop supplies, and unauthorized diagnostic time.
- Correction of engine compression or excess oil consumption.

- Valve grinding, burnt valves, and worn rings.
- Mechanical breakdowns covered under a manufacturer's new car warranty, manufacturer's recall, or factory bulletins.
- Vehicles used to transport people or haul goods for profit (unless commercial use coverage has been expressly purchased).

"Wear and Tear" Coverage

Some repair agreements exclude repairs needed due to "wear and tear." However, many car repairs are needed precisely because a part wears out from a long period of use (or improper maintenance).

Some experts believe that if a part is going to break on a newer car for some reason other than wear and tear (such as faulty design or manufacturing), it will usually break within the first few years. In those first few years, almost all new cars are covered by a free, new car warranty provided by the manufacturer. Any breakdown covered by a manufacturer's new car warranty will not be covered by a VSC or MBI.
Before buying a VSC or MBI policy, you should carefully review what is covered and not covered to see whether repairs due to wear and tear are covered or excluded. Typically, you can find it in the Definitions section where the VSC will define the term 'breakdown' or 'mechanical failure.' If wear and tear claims are excluded, you might want to consider buying a repair agreement that does not exclude coverage for wear and tear. That way, if it is not clear whether a repair is needed due to wear and tear or for some other reason, it is more likely that the obligor will pay for the repair. Again, DO NOT ASSSUME that a repair agreement will cover every repair your car may need.

Routine Maintenance Required

When a covered part that requires routine maintenance breaks and you cannot prove that the car was properly maintained, an obligor may deny your claim. For this reason, and because it's a good idea in general, you must perform all routine maintenance that is specified in the repair agreement and owner's manual, and must keep records to prove the maintenance was done.

Before you perform your own maintenance, check your repair agreement to see if it allows you to do so. If it does, and you perform maintenance yourself, keep receipts for products you bought and used, such as oil and other lubricants and fluids, filters, spark plugs, brake pads, belts and tires. Also, keep a log indicating the type of maintenance you performed, and the date and mileage when performed.

A lack of coolant or oil can cause major damage to the engine. Since repair agreements will not cover damage caused by a lack of routine maintenance, you should regularly check your engine for proper oil and coolant levels, and repair or replace heavily worn hoses and seals that might leak.

What You Need to do if you Have a Claim

Repair agreements always provide instructions on what to do if you need repairs. Read these instructions carefully as soon as you buy a repair agreement, and read them again when you determine that your car needs a repair. One important instruction is to report needed repairs immediately to the obligor or claim administrator. All repair agreements have a toll-free phone number for this purpose. A claim may be denied if you do not follow the contract's instructions exactly.

For costly repairs, an obligor or administrator will likely dispatch an independent inspector to examine the car. For all repairs that may be covered under the repair agreement, you will need to approve a "tear down." A tear down is a partial disassembly of the area of the car with the problem so the inspector can determine what the exact problem is, and what might have caused the problem. If, after the inspection, the obligor refuses to pay for the repair because the obligor thinks the repair is not covered by the repair agreement, then you will need to pay for the tear down and the repair yourself. However, you can try to get the obligor to reconsider its decision not to pay you. This is discussed later under the section entitled "What Should I Do If My Claim Is Denied?"

If the obligor or administrator says the breakdown is covered by the repair agreement, it will provide the repair facility with a "claim authorization number." This authorization is a promise that the obligor will pay for the particular repair. You and the repair facility should both write down and keep this authorization number, along with the name of the person giving the approval, what repairs were approved, and the date and time of the approval.

The Backup Insurance Company

As discussed earlier, VSCs are not insurance policies. However, because so many VSCPs went out of business without paying claims in the 1970s through 1990s, California law requires that a backup insurance company authorized by the CDI guarantee almost all VSCs. This guarantee means that if a VSCP or dealer fails to pay any claim, either because the VSCP or dealer is out of business, or because the VSCP or dealer simply does not think the claim is covered by the VSC, then you can seek to have the backup insurance company review the claim. The law requires that the name and address of the backup insurance company be "conspicuously" printed on the contract. (If a VSCP has $100,000,000 in "net worth" it is exempt from the requirement to have backup insurance.) A VSC without the name of a backup insurance company may be illegal and should not be bought without first confirming with the CDI that the VSC is legal.

Companies called "rating organizations" grade insurance companies on their financial strength. Some people prefer to deal only with the strongest insurance companies, for example those with an "A" or "A+" grade or rating. These people might not buy a VSC if the backup insurance company does not have at least an "A" rating. You can check the Web- sites of insurance company rating organizations, such as A.M. Best, to see what the rating is of a backup insurance company named on a VSC you are thinking of buying.

If a VSC includes the name of a backup insurance company, the backup insurance company must evaluate your claim if the obligor does not (either because it is out of business or for some other reason). The backup insurance company must pay your claim if it is covered and not excluded.

Some VSCs have backup insurance from a special kind of insurance company called a "risk retention group." A risk retention group will always have the words "risk retention group" or "RRG" in its name. A risk retention group may be authorized to provide backup insurance, but it is not actually licensed by the CDI. Because many laws that apply to licensed insurance companies and protect consumers do not apply to risk retention groups, some people recommend that you buy a VSC only if the backup insurance company is actually licensed by the CDI, and not if the backup insurance company is a risk retention group. To find out whether an insurance company is licensed by the CDI, check the "Company and Agent/Broker Information" page of CDI's website, www.insurance.ca.gov or call the Department's toll-free phone number, (800) 927-4357.

What about New Car Warranties?

Many car repairs are covered by the new car warranty that comes automatically, free, when you buy a new car. New car warranties are issued by the car's manufacturer. They vary in their duration and the parts they cover. Most new car warranties cover the major parts of your car for several years. If a covered part breaks during the term of a new car warranty, the warranty (not a VSC or MBI policy you brought) will pay for the repair. Seriously defective new cars may be covered under California's "Lemon Law". The Lemon Law does not apply to used cars. You can obtain more information about the Lemon Law in the "Resources" section of this Guide.

Where to Buy, How to Buy and How Much to Pay

Obtain and Read a Copy of the Repair Agreement Before You Buy

1. Do not be rushed into buying a VSC. VSCs are long and complicated; before you buy one you need to take ample time to carefully read it to ensure it complies with the law and gives you the coverage you want. Pay special attention to the exclusions.
2. Get a copy of the actual VSC you are thinking of buying, not merely a brochure or summary, and take as much time as you need to read it before you buy. Make sure you understand what is covered and what is excluded, and who the obligor is.
3. Confirm that the VSC contains the name and address of a backup insurance company (or confirm with the CDI that the VSC is exempt from the backup insurance requirement).
4. You will probably pay thousands of dollars for a VSC. All you get in exchange is a piece of paper. You need to confirm with your own eyes what the paper says; you cannot rely on what the dealer tells you it says, or a brochure that summarizes the VSC. Brochures usually emphasize what is covered, and may not thoroughly describe what is not covered.
5. If you decide to buy a VSC, do so only if you can take the actual contract with you when you leave the dealership.
6. After you get home with your new VSC, read it again, paying special attention to the exclusions. If you decide

you don't want the VSC after all, you may cancel within 30 or 60 days and get a full or partial refund. (See the "May I Cancel a VSC?" section of this Guide.)

What Should I Do if my Claim is Denied?

If you have a claim that is denied, there are several steps you can take to try to get the repair paid under your repair agreement.

1. Get as much information as you can from the obligor or claim administrator about why it is denying your claim. (While we refer in this section to the "claim administrator," or simply "administrator," you may be dealing either directly with the Obligor, or with a claim administrator hired by a Dealer-Obligor.) Ask which specific provisions of the repair agreement the obligor or administrator is using to deny your claim. Ask what the obligor or administrator's evidence is that those provisions apply to your repair. For example, if the obligor or administrator says it will not pay to repair your engine, and the engine is covered by the repair agreement, ask which exclusions are being used to deny the claim. If the obligor or administrator says the engine overheated, and the agreement does not cover overheating, ask what evidence the obligor or claim administrator has that the car overheated.
2. Make detailed notes of what the obligor or administrator tells you, and try to get the reasons for a claim denial in writing from the obligor or administrator. If the vehicle has been inspected, obtain a copy of the inspection report.
3. Get as much information as you can from the mechanic or service writer at the repair shop where your car will be fixed. Does the mechanic/ service writer disagree with the obligor or administrator? If so, why? For example, does the mechanic think there is no evidence that the car overheated? What does the mechanic or service writer think about the supposed evidence of overheating described by the obligor or administrator? Try to get the mechanic/service writer to put his/ her evaluation in writing. If that is not possible, make detailed notes of what the mechanic/ service writer tells you.
4. If the mechanic/service writer disagrees with the claim denial, talk to the obligor or administrator and explain what the mechanic/service writer told you, or if possible, have the mechanic/service writer arrange a conference call or re-inspection and ask the mechanic/ service writer to explain to the obligor or administrator why the claim should be covered. Again, make notes.
5. If the obligor or administrator still refuses to pay for the repair, or to pay as much as you believe should be paid, you might need to pay for some or all of the repair yourself and try to get reimbursed from the obligor or backup insurance company later. However, before having the repair started, make sure the obligor or administrator has either inspected the car, or told you that the obligor or administrator does not need to inspect it.
6. After the car is repaired (or while it is being repaired or waiting to be repaired), write an appeal letter or email. The letter or email will be based on your notes of the conversations you or the mechanic/ service writer had with the obligor or administrator, and your notes of what the mechanic/service writer told you. If you have a VSC, your letter or email should be addressed to the insurance company that guarantees your VSC. If you have an MBI policy, address the letter to the insurance company. In your letter or email, explain why you believe the repair should be covered, and why the exclusions mentioned by the obligor or administrator do not apply. Attach copies of all relevant documents. These may include the written estimate or final invoice of the needed repair work from the repair facility, a letter from the mechanic/service writer explaining why the claim should be covered (if such a letter can be obtained), and proof that you have properly maintained your car (if the obligor or administrator denied the claim because the car supposedly was not properly maintained).
7. If an insurance company denies your appeal, you may seek assistance from the CDI. Please see the "File a Complaint" section on the CDI Web site (Getting Help (ca.gov)) for contact information you can use to file a complaint with the Department.
8. You may also wish to seek assistance from an attorney, and/or may choose to file a lawsuit in small claims court against the obligor (if your claim is $10,000 or less).

Why Isn't My Car Ready ?

It is always frustrating to be without your car while waiting for auto repairs to be authorized or completed. Sometimes obligors or the claim administrators take several days to inspect a car to see if a repair is covered by a repair agreement. When there is no reasonable explanation for the delay, you may be tempted to go ahead and have your vehicle repaired without gaining prior authorization. If you do this, the obligor or the claim administrator may try to deny your claim. Consumers experiencing unreasonable delays from a VSCP or the administrator should contact the backup insurance company listed on the VSC. If the issue is still not resolved, contact the CDI for further assistance. Do the same if you experience delay with a claim filed under an MBI policy. Refer to the "Talk to Us" section in this guide.

Once you have received authorization for your claim, you may still experience delays at the repair shop. If your car is being repaired and it is taking weeks or months to complete the repairs, and you think the delay is the fault of the repair facility, or you believe the repairs have been done improperly, you can contact the California Bureau of Automotive Repair (BAR). Please see contact information for BAR in the "Resources" section of this Guide. The Bureau of Automotive Repair is the California government agency that licenses and regulates automobile repair shops, including those repair shops operated by auto dealers.

Most VSCs and MBI policies provide a rental car benefit to help pay for the cost of a rental car while your regular car is in the shop. Read your repair agreement to see what rental car benefit, if any, is available to you.

Used Car VSCs

A used car may run fine when you buy it, but the risk of expensive future repairs may be high. Some used vehicles are not properly maintained by the prior owner(s). Maintenance is very important in preventing major repairs. Many used cars need repairs not because they were poorly built, but simply because parts have worn out from long use or lack of proper maintenance. The more miles on a car when a repair becomes necessary, the more likely it is that the repair will be needed because the part wore out, rather than because the part broke due to bad manufacturing. As discussed earlier, some VSCs, especially used car VSCs, do not cover repairs caused by a part simply wearing out; they may only promise to cover parts that break because they were not manufactured properly. However, while some VSCs exclude wear and tear repairs, others do not. If you are going to buy a VSC for a used car, be sure to buy one that does not exclude repairs needed because of wear and tear. That way, the Obligor may approve payment for the repair if it is unclear whether the repair is needed due to wear and tear or a manufacturing defect.

Generally, the higher the mileage on a used car, the fewer the number of parts that will be covered, and/or the broader the exclusions will be. In addition to buying a used car VSC that doesn't exclude wear and tear coverage, look for one that covers seals and gaskets, computers and sensors.

If you are thinking about buying a used car, have it inspected by a reliable repair facility that is separate from the dealer selling the car (unless the dealer is a franchisee of a manufacturer, and is selling the car "certified" with at least a one-year warranty free of charge). Buying a VSC is no substitute for a good, independent inspection before buying.

Also, have the inspection mechanic review the coverages and exclusions of any used car VSC you are considering buying, and have the mechanic explain what is covered (wear and tear is a must) and what is not covered that might break.

Keep in mind, if there is any problem with your vehicle at the time of purchase, the Obligor may refuse to repair the vehicle because of a pre-existing condition exclusion. Make sure the dealer fixes any problems with your vehicle before you buy.

Can I Cancel a VSC ?

All VSCs are cancelable under California Civil Code Section 1794.41. The obligor must give you a full refund of the VSC purchase price if you meet all of the following requirements:

- You cancel the VSC within 60 days after receiving the contract, or 30 days if your car is used and came without a manufacturer warranty.
- You send your cancellation notice as specified in the VSC.
- You have not filed a claim with the dealer or VSCP. (If you have filed a claim, you may still cancel, but you will only receive a partial refund. The obligor may keep some of the purchase price based on the elapsed time or mileage or retail value of service performed, as specified in the VSC.)

You are entitled to a partial refund if you cancel after either 60 or 30 days (whichever is applicable) regardless of whether you have filed a claim. The obligor may keep some of the premium based on the elapsed time or mileage or retail value of service performed, as specified in the VSC. The obligor may also keep a fee of up to $25.00 or 10% of the price of the VSC, whichever is less.

If a VSCP or dealer does not honor the cancellation and refund sections of the contract, then contact the insurance company listed on the VSC. If the insurance company does not resolve the problem, then contact the CDI.

Some Final Reminders about Automobile Repair Agreements

- Obtain a sample of the agreement and read it carefully before deciding to purchase. Make sure the MBI insurer, or the VSCP and backup insurer, are licensed by the CDI. If the backup insurer is a risk retention group, and therefore not licensed by the CDI, understand that the CDI does not regulate the finances and claim handling of risk retention groups as closely as it does insurance companies that are licensed in California.
- Understand what the contract covers and does not cover. Read the "what is not covered" or "exclusions" section very carefully.
- Compare VSCs with MBI for cost and coverage.
- Perform all routine maintenance required by the repair agreement and owner's manual. Keep a maintenance log and save receipts for all work performed.
- Contact the backup insurance company listed in the VSC if you have problems with the VSCP or dealer denying a claim.
- File a complaint with the CDI if the backup insurance company does not resolve your complaint.

Resources

Contact regarding complaints concerning poor quality auto repairs

Bureau of Automotive Repair 10949 North Mather Blvd.
Rancho Cordova, CA 95670 Toll free: (800) 952-5210
Web site: www.bar.ca.gov

Contact Arbitration Certification Program regarding Lemon Law information

Department of Consumer Affairs
1625 N. Market Blvd., Suite N-112
Sacramento, CA 95834
Direct Office: (916) 574-7350
Toll free: (800) 952-5210 Web site: www.lemonlaw.ca.gov

Contact manufacturer new car warranties and Lemon Law information

New Motor Vehicle Board
2415 First Avenue, MS L242
Sacramento, CA 95818
Phone: (916) 445-1888
Web site: www.nmvb.ca.govbuy

Filing a Complaint (Request for Assistance)

CDI is committed to protecting your rights. Many questions can be answered over the phone. If we are unable to resolve the issue over the phone, you have the option of filing a Request for Assistance against the insurer or the agent/broker by mail or online on our website. The system will allow you to attach copies of all necessary documents, such as policies, canceled checks and correspondence. Some examples of the issues the Department may be able to help with include:

- Improper Denial of Claim
- Cancellation or non-renewal of a policy
- Delay in settlement
- Alleged misappropriation of premiums paid
- Alleged misrepresentation by an Agent/Broker or solicitor
- Unfair underwriting practices
- Dishonest or deceptive insurance sales tactics

Contact Us

Consumer Assistance Hotline:
1-800-927-4357
TTY 1-800-482-4833
Visit us on the web at:
www.insurance.ca.gov
To order additional materials contact
Community Relations & Outreach at:
crob@insurance.ca.gov

Led by Insurance Commissioner Ricardo Lara, the California Department of Insurance is the consumer protection agency for the nation's largest insurance marketplace and your best resource for honest and impartial answers to insurance questions. Knowledgeable insurance professionals are available through our consumer hotline. Call 1-800-927-HELP (4357) or visit www.insurance.ca.gov to view all of our consumer information guides and insurance resources. These tools are available to consumers free of charge.

This information guide is a product of the staff of the California Department of Insurance.
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